

SCOTTISH HOME DEPARTMENT

REPORT OF THE WORKING PARTY
ON THE VALUATION FOR RATING
OF GASWORKS IN SCOTLAND

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Working Party on the Valuation for Rating of Gasworks in Scotland

Appointment of Working Party and Scope of Investigation

1. We were appointed in December, 1954, as the result of consultations between the Secretary of State, the local authority Associations and the Scottish Gas Board in pursuance of the suggestion made in paragraph 110 of the report of the Scottish Valuation and Rating Committee under Lord Sorn's Chairmanship (Cmd. 9244)* that the tentative proposals which they made for changes in the method of valuing waterworks and gasworks should be investigated further. Our remit concerned the valuation of the Gas Board's undertaking; a similar working party was appointed at the same time to investigate the valuation of waterworks. Several of our members have taken part in both investigations.

2. The object set before us was to prepare an assessment of the practical possibilities of improving the method of valuing gasworks which could be considered by the Ministers concerned, the local rating authorities and the Scottish Gas Board. We have held six meetings, the first two of which were joint meetings with the working party on the valuation of waterworks, and we now submit our report.

The Revenue Principle

3. The valuation of the Scottish Gas Board's undertaking—which is treated as a single unit for this purpose—is at present carried out by the Assessor of Public Undertakings in accordance with the revenue principle as it has been evolved over the years in the light of Court decisions. In essence the revenue principle seeks to establish by reference to the accounts of the undertaking the rent which a hypothetical tenant would be willing to pay for the undertaking in its actual state; it does so by deducting from the revenue the expenses incurred in earning that revenue. A brief description of the revenue principle is for convenience contained in Appendix I to our report. The Sorn Committee discuss criticisms of this method of valuation in paragraphs 110 and 111 of their report and say at the beginning of paragraph 112 that the experts who advised them (that is, members of the Scottish Branch of the Royal Institution of Chartered Surveyors) were unable to suggest the introduction of any new factor which would remove the features to which objection is taken in its present operation. We nevertheless felt that the starting point for our enquiry should be to examine the present method of applying the revenue principle and the criticisms to which it has given rise and to investigate further the possibility of removing them. In this connection we have had the benefit of statements explaining the application of the revenue principle in England and Wales, which differs in some respects from the Scottish method of applying it. These were kindly prepared for the Working Party on Water Undertakings by the Valuation Department of the Board of Inland Revenue; and although they related to the valuation of a water undertaking they afforded us a valuable illustration of the general principles followed in England and Wales. We later consider possible alternative methods of valuation, including changes in the method of apportionment of the *cumulo* value of the undertaking among the various rating areas;

* H.M.S.O., Price 3s. 6d.

and in the concluding section we examine the Gas Board's financial position as it affects their ability to pay rates.

4. It may be convenient first to summarise the alleged defects of the revenue principle as it is at present applied to the Scottish Gas Board's undertaking, and the objections to its use as the method of arriving at the valuation of the undertaking. The criticisms, including those discussed in the Sorn report, which we have considered are the following:—

(1) *Defects in the Revenue Principle itself*

(a) The revenue, and therefore the annual value, of a public undertaking is largely determined by the amount of loan debt outstanding. Rateable value, therefore, largely depends on the incidence of capital expenditure and on the financial or accounting policy of the undertaking.

(b) In consequence, values tend to rise and fall over long periods. This is objectionable alike to the undertaking and to the rating authorities. The Assessor of Public Undertakings already averages values over three years, but averaging over a very long period indeed would be required to eliminate such variations.

(c) Apart from these long-term movements, fluctuations in revenue from one year to another cause fluctuations in value, which are only partly offset by the practice of averaging over three years.

(d) The valuation reflects expenditure on landlord's renewals at post-war costs for which no deduction is allowed.

(e) Loan charges incurred to meet capital expenditure on works which are no longer used or are not yet fully used may be included in arriving at annual value.

(f) Allowance is not made for payments to reserve, although the Board are required by statute to establish and maintain a general reserve fund.

(g) No allowance is made for the payment of owners' rates; the valuation, therefore, results in the payment of rates on rates.

(h) As the operation of the principle depends on case law judicial decisions may make it most difficult for the assessor to introduce modifications when general circumstances change.

(2) *Objections of the Gas Board to the Valuation of their Undertaking by the Revenue Principle*

(i) Valuations by the revenue principle correspond closely with the amount of the landlord's capital charges for interest and depreciation. In periods of inflation these charges rise with the fall in the purchasing power of money; and when heavy capital expenditure is incurred in such a period—and that is the present position with the Gas Board—the effect is especially marked. Valuations on the revenue principle are revised annually and consequently rise immediately in sympathy with the fall in money values. Most other valuations (as it appears to the Board) are changed only at relatively long intervals of time, so that when the value of money falls valuations on the revenue principle diverge rapidly from other valuations. The Gas Board contend, and have submitted figures to support their contention (Appendix IV, statement 1), that for these reasons their valuation will in the next few years rise excessively and they ask that in equity some mitigatory adjustment should be made to ensure that they will not be placed in a less favourable situation than other ratepayers.

(j) Unless the present method is radically altered very soon, the Gas Board fear that they will be faced with a crippling burden of rates within a few years.

5. Of the first group of criticisms, the complaint that rates are paid on rates is, of course, a general one and is answered by the announcement of the Government's intention to introduce legislation to give effect to the main recommendations of the Sorn Committee, including the abolition of owners'

rates. The difficulties arising from expenditure on landlord's renewals, on works which are not fully used and on payments to reserve, and to a limited extent from fluctuations in value, could, we think, be removed, or at least mitigated, by the adoption of the alternative modifications of the revenue principle which we discuss in the following paragraphs. As regards the Gas Board's objection that the valuations of other properties are changed only at relatively long intervals the implementation of the Committee's proposals will, of course, secure that all valuations are reviewed every five years.

Possible Modifications of the Revenue Principle

6. We first considered whether modifications of the revenue principle on the lines of those suggested by the first Sorn Committee (Cmd. 6526)* in relation to the valuation of hydro-electric undertakings could suitably be adopted for the Scottish Gas Board. The Committee made three suggestions for modifying the rateable value of hydro-electric generating works as brought out by the ordinary application of the revenue principle; a note is appended (Appendix II) explaining these suggestions and the circumstances in which they were recommended. One of them was subsequently adopted and given statutory effect in the Hydro-electric Undertakings (Valuation for Rating) (Scotland) Act, 1945, and remained in force until the special arrangements for payments by electricity undertakings for the benefit of local authorities were introduced by the Local Government Act, 1948. In brief the Committee's proposals were that a special deduction should be made from the valuation of hydro-electric generating works as brought out by the revenue principle, either of a fixed percentage or of a proportion which depended on the extent to which the capital cost of the generating works exceeded £30 per kilowatt; the object was to reduce the difference between the valuation of steam and hydro-electric generating stations of similar capacity caused by the much greater capital cost of hydro-electric works. It thus dealt with a situation which has no parallel in the present investigation of the rating of the Scottish Gas Board and it appears to us that a device of this kind for reducing the valuation arrived at by the revenue principle would not properly meet the views stressed by the second Sorn Committee that valuation should respond to economic changes. Although proposals on these lines might reduce the burden of rates falling on the Gas Board as a result of capital expenditure at high costs, they could not level up values at any later period when the revenue principle might operate to depress them. After careful consideration we cannot recommend that the revenue principle in its application to the Gas Board should be modified on the lines of the Act of 1945 or of the alternative suggestions made by the first Sorn Committee.

7. It appears to us that it would be practicable to amend the revenue method in the following respects:—

(a) DEDUCTIONS FOR LANDLORD'S RENEWALS

8. One of the Gas Board's principal objections to the present method of applying the revenue principle to their undertaking is that landlord's renewals at present-day high costs are reflected in an increase in the valuation although they may not in themselves increase the Board's capacity to earn revenue (paragraph 4 (1) (d) above). It is inevitable that the cost of replacing worn-out plant should be inflated and we discuss in paragraph 15 below a possible means of mitigating the effect of inflated costs on the valuation. Here, however, we wish to refer to one respect in which the application of the revenue principle in Scotland differs from that followed in England and Wales. The deductions which may be made from gross receipts by way of working expenses in both countries exclude landlord's renewals, but in England and Wales a further

* H.M.S.O., Price 4d.

deduction is allowed in respect of sums set aside in a renewals fund. It was explained to us that the object of the English method is to arrive at a net annual value of the undertaking in one operation. In Scotland the principle has always been applied so as to arrive at the gross annual value. Having arrived at this value, however, a further deduction of 20 per cent. is allowed under the Rating (Scotland) Act, 1926, to give the net annual value. This, it seems to us, at least partly meets the objection of the Gas Board; it appears to us on examination, however, that the Rating Act deduction is not wholly comparable with the deduction made in England. It was granted broadly to preserve the abatements of value enjoyed under earlier statutes by gas undertakings and other subjects. The poor rate, for example, was levied by parish councils on net annual value; and for certain rates in burghs the value of underground pipes was reduced by three-quarters. (An explanatory note is contained in Appendix III.)

9. When rating on net annual value is introduced in accordance with the Sorn Committee's recommendation, the 1926 Act deductions generally will disappear, and we think that it would be logical, and consistent with the Committee's recommendation in paragraph 51 of their report that the net annual value of industrial subjects should be estimated direct, that a deduction for landlord's renewals should be allowed in arriving at the value of the Gas Board's undertaking. But if discrimination against the Gas Board is to be avoided, it would be reasonable in addition to make some other adjustment to take account of the element of derating of underground pipes reflected in the Rating Act deductions. We understand that the water working party have suggested that a 50 per cent. deduction should be made from the part of the net annual value of water undertakings which relates to trunk mains. Trunk mains, of course, form a much greater part of most water undertakings than they do of the Scottish Gas Board's undertaking, and the Board are not at present able to estimate at all closely what such an allowance might amount to. It appears to most of us, however, that this is the form that an adjustment of the Board's valuation might most appropriately take in order to secure some reduction of the value of underground pipes.

10. We suggest that, if valuation of the Scottish Gas Board's undertaking by the revenue principle is to be retained, any legislation to reform the valuation system should include a provision authorising the assessor to deduct the average annual provision for landlord's renewals from the Board's gross receipts. We consider that it would be reasonable for the assessor to accept as expenditure on renewals the sum set aside each year in respect of the depreciation of the landlord's plant, provided that he can satisfy himself that the payments are accurately related to the life of the assets and to the extent to which their value is already written off. It would also be necessary for any interest earned on the depreciation fund—which we understand results from the method of depreciation laid down for Gas Boards by the Gas Council—to be "added back" to the gross revenue. These details of the working of a renewals allowance might, however, be a matter for determination by the assessor, subject to appeal to the Court, rather than for legislation.

11. We think that these two deductions, for renewals and for trunk mains, will accord with the general principles of the Sorn Committee's recommendations. At the same time they would to some extent preserve—although, in the opinion of the Gas Board representatives, not adequately—the element of special treatment enjoyed by gas undertakings in respect of underground pipes through the Rating Act deduction.

(b) DEDUCTIONS IN RESPECT OF CONTRIBUTIONS TO RESERVE FUNDS

12. Another important objection of the Gas Board to the present method of applying the revenue principle is that no deduction from gross revenue is allowed

in respect of sums set aside for trading reserve (paragraph 4 (1) (f) above). The Board are required by statute to establish and maintain a reserve fund and ordinary commercial prudence dictates that they should. The contributions to reserve can only be made, however, from surplus revenue and sums raised for the purpose are reflected in the valuation and are therefore assessable to rates. It has been calculated that at present levels of rate poundages rates would absorb about 50 per cent. of sums raised for a reserve fund, the main purpose of which is to enable the Board to avoid frequent changes in charges as a result of fluctuations in revenue. Sums set aside to reserve would not reflect any physical change in the undertaking and it was strongly represented to us that they arise only from the needs and enterprise of the tenant and should not be regarded as part of the hypothetical rent and as such be reflected in the valuation. As things are, the present method of valuation inhibits the Board from making transfers to reserve which are required by commercial prudence and strict observance of the statutory provisions alike. The Ministry of Fuel and Power regard it as of great importance that the Board should provide an adequate reserve. It seems to us that it would be both reasonable and in accordance with the true intent of the valuation principles that sums transferred to a reserve fund for trading purposes should be allowed as a deduction from revenue, so that they should not be reflected in the valuation. On the other hand, we think that account should be taken in arriving at the valuation of sums expended from reserve. In that event the expenditure from reserve should be added to the revenue for the year. The exact terms of any legislation giving effect to this arrangement would require further consideration. Similar considerations apply in our view to payments by the Board to the Central Guarantee Fund required by the Gas Act. We understand that contributions to this fund have ceased meanwhile, but if they should be revived later in order to raise the fund above its present level, we consider that they should be regarded as a charge upon the tenant and should not be reflected in the valuation unless or until the fund is used to meet interest charges or for any other revenue or capital purposes.

(c) DEDUCTIONS IN RESPECT OF POST-WAR EXPENDITURE

13. The Scottish Gas Board's anxiety about the present method of valuing their undertaking is caused by the steep rise in valuation which they expect in the next few years as a result of the heavy programme of capital expenditure upon which they are engaged. Much of the work is necessary to overtake arrears dating from the war, but it is all being carried out at inflated post-war structural costs. The Board calculate that between vesting date in 1949 and 1960 they will have incurred about £37 million to meet an increase in the demand for gas during the period of about 15 per cent.; by contrast with this small increase in gas output the valuation by the revenue principle is expected to rise by nearly 300 per cent. Part of this increase will disappear if the suggestions are adopted which we make with regard to renewals in paragraph 10, or, as an alternative, in respect of unremunerative expenditure in paragraph 18 below, and with regard to reserves in paragraph 12; but nevertheless capital expenditure in the post-war period will have a material effect on the Gas Board's valuation. It was suggested to us that this was unfair and that it was desirable to modify the revenue principle so as to offset the effect of the high post-war capital costs compared with the level of costs before the war.

14. We do not think that this argument can be accepted in this form, though doubtless we should have regarded it differently if we had been concerned with the valuation of several undertakings of comparable size, some developed before the war and others after. As it is, it seems to us that the high structural cost of post-war extensions and renewals of the Gas Board's undertaking, and

that part of their valuation which arises from such capital expenditure, merely reflects the contemporary level of costs which the Sorn Committee thought ought to be reflected in valuation. We do not think, therefore, that any special deduction or reduction factor is required merely to reduce the effect of high post-war structural costs to some pre-war datum. Nevertheless, we are inclined to accept the contention of the Gas Board that inflated structural costs are reflected more quickly in valuations arrived at by the revenue principle than in valuations arrived at by other methods. The Board's undertaking is valued yearly and capital expenditure is reflected in the valuation two years after it is incurred. Valuations of other properties at present are not reviewed so frequently; and even if in future all properties are revalued every five years as the Sorn Committee recommended, we doubt whether the disparity will be entirely removed. We have, therefore, investigated the possibility of introducing some special deduction or reduction factor to mitigate the effect on valuation of high post-war costs.

15. The Assessor of Public Undertakings put before us a means of doing this. He suggested that, after the gross and net annual values of the Board's undertaking have been arrived at on existing principles, a special deduction at a fixed percentage should be allowed on that part of the net annual value which is attributable to post-war expenditure, which might be defined for this purpose as expenditure incurred after a standard year, say, 1948-49. It is estimated that post-war capital expenditure is at approximately three times the level of that in the pre-war period and if it were desired to offset the whole of the resulting inflation, the special deduction would be at the rate of 66½ per cent. As we have suggested, however, it seems open to doubt whether a factor reducing post-war costs to the pre-war level could be justified and it might be thought that 50 would be a more reasonable percentage in present circumstances. Clearly, however, the appropriate percentage may vary from time to time and will depend on the standard year chosen. For example, if it were assumed that costs were likely to be stabilised at their present level for some time to come the case for making any special deduction by reference to pre-war costs would diminish and accordingly whatever percentage were thought right now should in that event be gradually reduced and in due course a new standard year selected. We think, therefore, that if this recommendation is adopted it would be reasonable to provide for a periodical review both of the standard year selected and of the percentage in the light of the changes in the Gas Board's circumstances and in the general level of valuations. We have, however, already, in paragraph 10, recommended an allowance for renewals of all landlord's plant, which will be based in the case of new plant on post-war costs. If this proposal is accepted it will, of course, meet the difficulties discussed to a large extent, and we therefore recommend the suggested post-war expenditure allowance only as an alternative to a renewals allowance. If a renewals allowance only is given, the valuation will still reflect interest on loans raised to meet expenditure at post-war costs, but it seems only right that such an element of contemporary value should be retained.

(d) DEDUCTIONS IN RESPECT OF UNREMUNERATIVE EXPENDITURE

16. In principle we suggest that in arriving at annual value expenditure on productive capacity not yet in commission, or not yet fully used or no longer in commission, should be ignored. We understand that the Court has in fact generally approved the principle that (i) redundant plant and (ii) expenditure to meet future requirements should be disregarded. In practice, however, it is difficult to draw the line between plant provided in excess of immediate requirements and stand-by plant which is used from time to time and which the Court has held ought to be included. We have therefore given some thought to the

mechanics by which a deduction for unremunerative expenditure might be achieved.

17. The Gas Board tell us that in 1953-54 the capacity of their plant was 896,000 therms per day or 327 million therms per annum. The amount of gas actually produced was 206 millions, showing an apparent surplus capacity of 121 million therms or about one-third. This apparent surplus, however, represents mainly the excess of the demand during the peak period of the winter over the average day, a margin which has always to be provided for and which has no connection with the provision for future development. The Board say that the ratio of average demand to maximum demand (or load factor) is generally accepted as about 240/365ths and this multiplied by the maximum capacity is what might be described as "effective capacity." On this basis the undertaking's effective capacity in 1953-54 was 240/365ths of 327 million therms a year or 215 million therms, 9 millions (or 4 per cent.) more than actual demand. In 1957-58 the Board estimate that production may be about 50 million therms or 20 per cent. below effective capacity.

18. We suggest that, if a deduction is to be allowed in respect of excess capacity it should be based on a calculation on these lines, but that the first 5 per cent. should be disregarded and the percentage should be tapered when it exceeds 15. The allowance for renewals suggested in paragraph 10 above would, however, apply to renewals of all landlord's plant whether or not it is fully used. Such a renewals allowance would to some extent meet the difficulties which we are discussing in regard to unremunerative expenditure and we therefore recommend an unremunerative expenditure allowance only if the proposed renewals allowance is not accepted. Similarly, it appears to most of us (the Gas Board's representatives dissenting) that an unremunerative expenditure allowance should not be given as well as an allowance in respect of post-war expenditure.

19. We have thus examined various suggestions, which appear to be practicable and reasonable, for modifying the revenue principle if it continues to apply to the Gas Board's undertaking, namely, by the introduction of allowances for—

- (a) landlord's renewals,
- (b) reserve funds,
- (c) post-war expenditure,
- (d) unremunerative expenditure,
- (e) a 50 per cent. deduction from the part of the net annual value attributable to trunk mains.

We suggest that (b) (reserve funds) might be allowed as a deduction whether or not any of the other modifications or combinations of them are acceptable. The statements in Appendix IV show the effect of the various combinations of these modifications as follows:—

- Statement 2 allowing (b) alone.
- Statement 3 allowing (b) and (d).
- Statement 4 allowing (b) and (c).
- Statement 5 allowing (b), (c) and (d).
- Statement 6 allowing (a), (b) and (e).

Deductions (a), (b) and (e) (Statement 6) would be the appropriate combination for arriving directly at the net annual value and this would appear to be in keeping with the recommendations of the Sorn Committee for determining net annual values for other properties. The representatives of the Gas Board do not, however, consider that deduction (e) for trunk mains would adequately compensate them for the withdrawal of the existing 20 per cent. deduction from gross annual value as recommended by the Committee. We have already

expressed the view that (d) the unremunerative expenditure allowance should not be combined with either (a) renewals allowance or (c) post-war expenditure allowance. Most of us do not, therefore, favour the combination (b), (c) and (d) in Statement 5, but the Gas Board representatives see nothing inconsistent in combining (d) with (c) especially as in that combination (d) has much less influence in determining the valuation because it is calculated on a very much reduced gross value (compare Statements 2 and 3 where the effect is to reduce the net annual value in 1961-62 by £273,000 (£1,721,000 less £1,448,000) with Statements 4 and 5 where the reduction is only £46,000 (£738,000 less £692,000)).

Alternative Methods of Valuation

20. The Sorn Committee observed in paragraph 117 of their report that they had briefly considered whether the Gas Board's undertaking could be valued on the contractor's principle. This principle, which is applied to certain industrial undertakings where similar let subjects are not available for comparison, proceeds by applying a suitable percentage to the estimated capital value of the subjects, in order to determine, in terms of net return on capital, the rent that a tenant might reasonably be expected to pay for occupying them. The difficulties are in determining the capital value, which is not necessarily the same as capital cost, and in arriving at a suitable percentage for use as a reduction factor. The Sorn Committee suggested that the first difficulty might be avoided by taking total constructional cost as it may stand at each quinquennium. The problem of finding a suitable percentage would, however, remain, especially as it would probably be necessary, in order to prevent the valuation being inflated after a few years as a result of high present-day and post-war capital costs, to revise it from time to time. The scope for litigation about such a method of valuation would appear to be substantial, and, having regard especially to the distaste that the Court has always entertained for the contractor's principle except as a last resort when no other method is available, we cannot recommend it as a means of determining the Board's rating liability.

21. We have also considered whether the method of applying a "norm" of capital value, which the Sorn Committee suggested for waterworks and which has been investigated by the other working party, could be applied to gasworks. The main purpose of this suggestion is, of course, to level out the variations in rateable value of different undertakings which arise from the varying incidence of rising prices and from differing geographical circumstances; this is scarcely relevant to the Scottish Gas Board, whose undertaking is valued as a single unit. The principle might have some relevance—(a) if a "norm" were calculated on the basis of the circumstances of all the Gas Boards in Great Britain or (b) if separate valuation were reintroduced for the various gasworks in Scotland. Neither of these possibilities would, however, meet the needs of the Scottish Gas Board.

New System for Valuing Gas Undertakings in England

22. As Ministers and the local authority Associations are aware, the Scottish Gas Board would prefer their undertaking to be rated on the system introduced in England and Wales by the Rating and Valuation (Miscellaneous Provisions) Act, 1955. The English proposals were communicated to the Scottish local authority Associations in December, 1952, but agreement was not reached on their extension to Scotland. The Convention of Royal Burghs reserved their position until they saw how the proposals worked out in England and Wales, the Cities felt unable to express a view without information about the effect of the proposed method of apportionment, which the Board were then unable to supply, and the County Councils' Association were of opinion that there should be no change in the present method of valuing the Board's undertaking.

23. In brief the English system is to relate the valuation of an Area Gas Board in any year to a basic valuation by reference to output, and to distribute the *cumulo* value thus arrived at among rating districts by reference to a formula taking account of the gas produced and consumed in each district. The Sorn Committee, in paragraph 117 of their report, criticised the proposals on two grounds, firstly, that the valuation would be tied to past figures and the element of true valuation would get fainter year by year and would not respond to future economic changes; and secondly, that there might be a danger of taking as a base a year in which the Board's valuation was abnormally low. Similar criticisms were voiced on the Second Reading of the earlier Rating and Valuation (Miscellaneous Provisions) Bill (Hansard, 6th April, 1955, col. 1206).

24. The Scottish Gas Board have told us that they still favour the English scheme (a) because of its extreme simplicity, (b) because it would put the Board on an equal footing with the electricity boards, with whom they compete, and with other Area Gas Boards with whom they are compared, and (c) because it uses output as a measure of changes in value, which in their view is a suitable index. The scheme also avoids the difficulties arising from the revenue principle described earlier in this report. The Board have, however, suggested that, if necessary, the following modifications might be made in the English scheme to meet the Sorn Committee's objections, the force of which they recognise:—

(1) The basic valuation might be reviewed quinquennially and adjusted by a factor equivalent to variations in the general level of valuations as certified by assessors.

(2) The basic valuation need not be the valuation for 1948-49 as in the English scheme, but might be a different figure settled by agreement between the local authorities and the Board.

They also suggest that—

(3) The *cumulo* should continue to be apportioned for the time being on the existing basis of structural costs within rating areas.

25. As regards the Gas Board's reasons for favouring the English system:—

(a) The simplicity of the scheme, at least as regards the determination of the *cumulo* value, cannot be gainsaid.

(b) The Board have difficulty in understanding why they should be denied an arrangement which was conceded to the electricity boards and the railways in 1948 and has now been given to gas boards in England and Wales. They are particularly concerned about their competitive position in relation to the Scottish electricity boards. On the other hand, we understand that negotiations are to be opened to review the payments under Part V of the Local Government Act, 1948, in consequence of the revaluation in England and Wales next year. The Sorn Committee pointed out that the payments would have to be reviewed in Scotland also as a result of the new level of rate poundages which would result from the introduction of their proposals.

(c) The payments by the electricity boards are, of course, varied by reference to output; but whereas capital expenditure by the electricity industry is largely devoted to increasing output, the big programme of replacements to which the Scottish Gas Board are committed, being largely devoted to overtaking arrears of capital work which could not be tackled during the war (as observed in paragraph 13 above), is unlikely to be accompanied by a commensurate expansion in demand for gas. Whereas, therefore, the Board will possess a considerably more valuable undertaking in a few years' time this would not be adequately reflected in a valuation related to output.

26. To meet this criticism the Board have made the first suggestion quoted in paragraph 24 above that the basic valuation of their undertaking should be

reviewed quinquennially by reference to changes in the general level of valuations. The assessors among our members consider, however, that it would hardly be practicable to devise an accurate index for this purpose as the increase in valuations in any quinquennium would reflect the creation of new subjects as well as the revaluation of old properties. Other suggestions which we have considered as indexes for varying the basic valuation are the value of the £, the index of retail prices, the standard value of a typical house in each county and large burgh, the price of a therm of gas and the Board's gross turn-over.

27. As regards the suggestion (2) in paragraph 24, the Sorn Committee criticised the proposal to take the Board's valuation in 1948-49 as the basis of the new scheme on the grounds that it appeared that the valuation of the gas-works for which the Board are responsible had declined over a long period of years and that it would be wrong to take as the standard for the future a "trough" year after which the valuation is expected to rise again. A note is appended (Appendix V) of the gross annual values since 1918-19 of nine gas undertakings which were on the public assessor's roll before nationalisation, of the Board's gross value since 1949-50 and of the gross values expected to be brought out on existing principles up to 1961-62. From this it will be seen that the valuation of these nine undertakings, which in 1948-49 represented between a quarter and a third of the gross annual values of all gas undertakings in Scotland, rose from about £281,000 in 1918-19 to £518,000 in 1933-34 and thereafter declined to £160,000 in 1948-49. The fall in valuation did not stop after the creation of a single nationalised undertaking for the whole of Scotland, but continued (subject to smaller annual fluctuations) until 1955-56. Thereafter the gross annual value is expected to rise steeply as the result of capital expenditure at modern costs. It may reach £2,280,000 by 1961-62; this is considerably in excess of the figure of between £1,500,000 and £2,000,000 which would be proportionate to the peak of £518,000 reached in 1933-34 for the former nine undertakings.

28. The pre-vesting valuation was chosen as a base-line in England and Wales, we understand, because practical difficulties had been encountered which had prevented an effective valuation of gasworks since they were nationalised. In Scotland the Gas Board's undertaking has been valued on principles which have been approved by the Court, and we think that it would be unreal, apart from the criticisms voiced by the Sorn Committee, to go back to the pre-vesting valuations as a basis for a new scheme for the future. There is, however, considerable difficulty in choosing a base-line which would not only represent what the Gas Board can fairly afford to pay and the rating authorities can reasonably expect to receive, but which could also be defended by some logical process of calculation. Moreover, it appears to us that the problem must be considered in relation to two stages in the process of reforming the Scottish valuation and rating system generally on the lines recommended by the Sorn Committee. In the first place, a base-line has to be sought which would represent a fair value for the Board's undertaking in present circumstances, and secondly, a second base-line is required (or a formula to modify the first) to fit the circumstances which will arise when owners' rates have been abolished and other properties have been revalued in accordance with the Committee's recommendations.

29. The first stage of the problem appears to us to be answered in principle by the proposal recently made by the Secretary of State that on the abolition of owners' rates valuations generally should be frozen for a period of five years during which valuations on the new principles would be worked out. If effect is given to this suggestion, we think it would be right, whether or not it were decided eventually to adopt the English method of valuing gas boards, to freeze the Board's existing valuation as at the same date as other valuations are frozen,

presumably either the 16th May, 1956, or the 16th May, 1957, according to the progress made with amending legislation. If the date of freezing is the 16th May, 1956, the frozen value might be that for 1955-56 (as for other properties), but as this value may be regarded as unduly low owing to the loss suffered by the Board in 1953-54 (the accounting year on which the valuation is calculated), it might be thought reasonable to take as the frozen value the valuation for 1956-57, which will be ready before the 16th May, 1956, and which is expected to be somewhat higher. Although frozen, the Board's valuation might be subject, like the English basic valuation, to annual adjustment (which might be expected to be minimal) for changes in output during the transitional period. Such adjustment could be regarded as equivalent to the provision to be made for entering new subjects of other categories in the roll during that period.

30. As regards the base-line to be taken when the valuations of other properties have been completed in either 1960-61 or 1961-62, we have considered two possibilities. In the first place, the base-line for the frozen period could be adjusted to take account of the changes in valuations generally. If this device were favoured, the scheme as enacted would require to authorise the Secretary of State to determine the proportion which the new level of values brought about by revaluation bears to the frozen level and to apply this proportion to the basic valuation. Alternatively—and we think preferably—a basic valuation for introduction in 1960-61 or 1961-62 might be provided in the scheme itself. Such a basic figure might be logically arrived at by valuing the Board's undertaking in 1960-61 or 1961-62 by the revenue principle amended by one of the alternative modifications which we have suggested in paragraph 19 above. This, we think, would provide a realistic and acceptable basis for the scheme after revaluation has been completed and would avoid the need for negotiation of a base-line between the Board and the rating authorities. If, however, it is thought that it might be impracticable to have the undertaking valued four or five years after the introduction of the new system of valuation and rating, it might be suitable to specify as a basic valuation for introduction after the freezing period the best estimate that can be formed now of the valuation that the most generally acceptable modification of the revenue principle would bring out in 1961 or 1962.

31. If this basis for applying the English method of valuation is adopted we should prefer—as indeed the Gas Board themselves have proposed (paragraph 24 (1))—that provision should be made not only for annual variations of the basic valuation in accordance with output as in England and Wales but also for adjustment at five-yearly intervals or otherwise as circumstances might require to take account of the changes in the general level of valuations. As we have indicated in paragraph 26, we have considered, without recommendation, several methods by which this second adjustment could be effected, but we do not think the choice of a suitable index should present insuperable difficulty. A scheme on these lines would meet the Sorn Committee's criticisms—both of the suggestion that the 1948-49 value should be taken as the base and of the absence of an element of contemporary valuation. The scheme as it would apply with these modifications is outlined in Appendix VI.

32. The Gas Board's third suggestion quoted in paragraph 24 is that the *cumulo* should continue to be apportioned for the time being on the existing basis. We discuss the method of apportionment included in the English system in paragraph 34 below. Full information on which to reach firm conclusions as to its probable merits if applied in Scotland has not been available to us. We think, however, that if it is agreed that the Board's *cumulo* should be frozen during an interim period it would be suitable also to freeze the present apportionments. If this were done, all rating authorities now receiving rates from the Gas Board would benefit proportionately from any increases in the

cumulo arising from increased output, and none would gain or lose valuation, during the interim period, from the creation or abandonment of plant in their own or other areas. This we think would be the fairest arrangement for all concerned. Consideration would no doubt be given, in the event of any change in local government boundaries during the interim period, to such adjustment of the frozen apportionment as might be appropriate.

Apportionment of the *Cumulo* to Separately Rated Areas

33. We turn now to the general question of apportionment of value between rating areas, irrespectively of the method of arriving at the *cumulo* value. The Sorn Committee observed in paragraph 118 of their report that structural cost as a basis upon which to allocate the *cumulo* value is proving unsatisfactory, as new expenditure at high cost on works in one of the areas in which an undertaking is situated tends to attract value away from other areas. We have already suggested in paragraph 9 above that a deduction of 50 per cent. should be made from the part of the net annual value of the Board's undertaking which relates to trunk mains. We have also given some consideration, as the Sorn report suggested, to the possibility of adopting an alternative formula for apportionment. The English method of apportioning values determined on the revenue principle (hitherto applied to gas undertakings in England and Wales), which is based on a distinction between the indirectly and directly productive parts of the undertaking, is discussed in some detail in the report of the working party on the valuation of waterworks. The method requires the undertaking to keep a record of receipts from each separately rated area for purposes of allocating the value of the directly productive parts, by which is meant parts which actually earn revenue, and thus, paradoxically enough, distribution mains. The Scottish Gas Board do not keep such records at present and would be unwilling to take the considerable trouble of preparing them unless a clear advantage could be foreseen. The method also uses "effective capital value" (as against structural cost) for the determination of the value of the indirectly productive parts (that is, the works producing the service which earns revenue elsewhere). If this could be adopted in Scotland anomalies between works built at different periods would be removed, but the principles on which "effective capital value" is ascertained are not easily grasped. On the whole, the traditional English method of apportionment appears to us to have complexities which would make it unsuitable for grafting on to the Scottish valuation system.

34. We have been attracted by the new method of apportionment included in the new system for valuing Gas Boards in England and Wales, namely apportionment by reference to the gas manufactured or consumed in each rating area, as explained in Appendix VI. We have not been able to prepare tables illustrating how it might work out in Scotland as the Gas Board have no records of sales by rating areas. They hope, however, to be able to produce at least sample calculations before long to assist consideration of this report by the local authority Associations. In principle, however, this appears to us to be a fair method of apportionment which could equally be applied to valuation on a modified revenue principle or to a *cumulo* arrived at by non-traditional methods. It avoids the unsatisfactory features of allocation on structural cost, but at the same time, unlike the arrangements for the payments by electricity boards for the benefit of local authorities, it brings the payments within the framework of rating and relates them to the undertaking's activities in each rating area. On the other hand, as it gives no weight to high structural cost or to the value of trunk mains, it might result in an apportionment considerably different from that presently in force. We hope that these questions may be clarified by the figures which the Gas Board are now preparing.

General Financial Considerations

35. As already indicated, the Scottish Gas Board are much concerned about the effect of the burden of rates on their competitive position. It seems obvious that if the object of valuation is to determine the rent that a hypothetical tenant would pay for the lands and heritages in which an undertaking is carried on some account must be taken of ability to pay, for no hypothetical tenant would pay a rent which would put him out of business. We have received advice on the special difficulties of the Scottish Gas Board from the Ministry of Fuel and Power as well as from the Board themselves.

36. In general, the competitive position of gas is weaker than that of the other fuel industries. For example, electricity, by reason of its pre-eminence for lighting and many motive power uses, and oil, because of its virtual monopoly for road transport, have assured markets which are extremely insensitive to price changes. On the other hand, whether or not it will be advantageous for any consumer to use gas will depend on a number of factors of which price is, in many cases, by far the most important. The Scottish Gas Board, in particular, have more to fear from oil competition than Gas Boards in, say, the English Midlands where oil prices are higher owing to the distance from the ports of entry. The Scottish Gas Board are also in a worse than average position as regards consumer resistance to increases in price. After raising the price of gas from 1s. to 1s. 4d. a therm in the course of four years the Board found themselves with an accumulated deficit of £342,000 in March, 1954. Since then two substantial rises in the price of coal have necessitated increases in both gas and coke prices; electricity is affected by increases in the price of coal to a lesser degree and oil hardly at all; thus the risk of the Gas Board losing sales from causes beyond their control has increased. On the other hand they have so far been unable to carry out their statutory duty under section 47 of the Gas Act, 1948, to establish a reserve fund. Such a fund should give the Board flexibility in the timing and amount of price increases and thus improve their competitive position. The Ministry of Fuel and Power consider that a fund of at least £500,000 should be set aside as soon as possible, and in the longer term a much larger sum might be justified having regard to the size of the Board's turnover and other circumstances.

37. There is no doubt that a healthy gas industry is essential to the economy and social needs of Scotland. It is pre-eminent as a fuel for process work in certain industries and is of great importance, together with coke, as a smokeless fuel. Any failure to maintain adequate supplies of gas at a competitive price in Scotland might, as the Sorn Committee observed, adversely affect the location of industry.

38. It appears from the accounts for the year ending on the 31st March, 1954, published with the Board's Annual Report, that their revenue from gas sales amounted to about £13½ million from 198 million therms, that is to say, the average selling price of gas was about 1s. 4d. per therm. In the same year the Board paid nearly £366,000 in rates, so it might be said that the rating liability contributed a little less than a halfpenny to the price of a therm. If the Board's rating liability went up to £1,820,000 in 1961-62 as Appendix IV suggests that it might on the present method of valuation, assuming a rate of 20s. in the £, it would represent more than 2d. a therm, which could not be passed on to the consumer without a loss in gross returns. This is much more than the corresponding figure which we understand is likely to result from the new method of valuing gas undertakings in England and Wales; but we think that if the Board's undertaking were valued either on the revenue principle modified as we suggest in paragraph 19 or on the new system outlined in paragraphs 23-32 their rating liability would be unlikely to rise above a penny a therm at the most.

Conclusions

39. We suggest that the following conclusions might be considered further by the interested parties :—

(i) Whatever the scheme that may be decided upon for the future valuation of the Board's undertaking, it would seem appropriate, if valuations generally are frozen for an interim period of five years on the abolition of owners' rates, to freeze the Board's valuation also, subject only to annual variations, which would no doubt be very small, in respect of changes in output. This suggestion does not make it less urgent to reach a decision on the method to be adopted for valuing the Board's undertaking after the interim period (paragraphs 28 and 29).

(ii) The Scottish Gas Board have established their case that some modification of the present method of valuing their undertaking is essential to their financial stability during the next few years. Some of the Board's difficulties would be relieved by implementation of the Sorn Committee's proposals generally, but the substance of their case would remain (paragraphs 4, 5 and 35-38).

(iii) It would be practicable to amend the revenue principle by authorising certain deductions or the particular combinations of them detailed in paragraph 19 and Appendix IV in respect of (a) landlord's renewals, (b) reserve funds, (c) post-war expenditure, (d) unremunerative expenditure and (e) a 50 per cent. deduction from the part of the net annual value attributable to trunk mains. These modifications would not remove some of the fundamental objections to the revenue principle (viz., that the value is largely determined by loan debt outstanding and that it produces fluctuating values over a period of years). Their operation would depend on the way in which they were interpreted by the assessor under the guidance of the Court and would require to be kept under review.

(iv) We are not aware of any other amendments of the revenue principle, or any alternative methods of valuation, which would work in practice or secure more favourable valuations for the Gas Board (paragraphs 6, 20 and 21).

(v) If it were decided to adopt the English method of valuing Gas Boards, the freezing of the existing valuation would serve as a stepping stone to it. It would, however, be necessary for any statutory scheme to provide for a fresh basic valuation to take effect at the end of the interim period. This might be done either by applying a formula based on the effect of revaluation generally to the frozen valuation, or, preferably in our view, by adopting as the base the valuation that would be brought out at the material time by modifying the revenue principle in one of the ways suggested, subject to deduction for owners' rates. The scheme should include an adequate factor for quinquennial variations to take account of changes in levels of valuation as well as for annual adjustment according to output; but the factor to be used requires further consideration. In this way the Sorn Committee's criticisms of the use of the 1948-49 valuation as a base-line and of the absence from the scheme of an element of contemporary valuation would be met (paragraphs 22-31).

(vi) The method of apportioning the *cumulo* value of a gas undertaking among the rating areas it serves contained in the new English scheme for the rating of Gas Boards appears to be fair in principle, and the Scottish Gas Board hope to prepare at least sample calculations showing how it might work out in Scotland. We should see no advantage in adopting the present English method of distinguishing between the directly and indirectly productive parts of an undertaking (paragraphs 33 and 34). Meanwhile we consider that the

proposed freezing of the Board's valuation during the interim period should extend to the existing apportionment on structural cost (paragraph 32).

40. The Working Party wish to record their indebtedness to the officials of the Scottish Gas Board, the Office of the Assessor of Public Undertakings and others who prepared the tables and other material for their consideration and thereby greatly facilitated their enquiry.

Signed on behalf of the Working Party,

A. J. AGLEN,
Chairman.

24th August, 1955.

APPENDIX I
(see paragraph 3)

**The Revenue Principle of Valuation as applied to
Gasworks in Scotland**

1. Under the Valuation Acts the annual value of lands and heritages is normally the rent passing, but where there is no lease the assessor must estimate the rent which a hypothetical tenant might be expected to pay for the property. In the case of monopoly or quasi-monopoly undertakings occupying lands and heritages for the conduct of their business the assessors' established practice is to ascertain such rent by applying what is known as the revenue-principle, or profits method, to the valuation of the lands and heritages. This practice has been endorsed by decisions of the Lands Valuation Appeal Court; it bases the valuation upon the revenue earned by the undertaking which occupies the property.

2. Under the revenue principle as applied by the Assessor of Public Undertakings (Scotland) to the Scottish Gas Board's undertaking the amount of the gross revenue for the latest year is first ascertained. From this are deducted:—

- (a) the expenses of earning the revenue, that is to say, all working charges including repairs and maintenance of all buildings and plant; and
- (b) allowances for (i) the interest on the capital employed by the tenant in providing the moveable plant, (ii) depreciation of such plant and (iii) the interest on the floating capital needed to run the undertaking.

This gives the gross annual value for the year and it is averaged with the gross annual value for the two preceding years. Finally, from the gross annual value so ascertained 20 per cent. is deducted under the Rating (Scotland) Act, 1926, to arrive at the net annual and rateable value. Showrooms, however, are not given the benefit of this deduction as a result of Court decisions.

3. The following is a skeleton statement illustrating how the profits method works:—

GROSS REVENUE	...	...	...	...	...	...	...	£
<i>Deduct WORKING CHARGES, ETC. (including cost of manufacture and distribution of gas; management expenses and occupier's rates)</i>								
...	£
<hr/>								
NET REVENUE	...	...	...	...	...	...	...	£
<i>Deduct TENANT'S CAPITAL ALLOWANCES:</i>								
Interest on Tenant's Capital	...	£						
Interest on Tenant's Plant	...	£						
Depreciation or renewal of Tenant's Plant	...	£						
<hr/>								£
GROSS ANNUAL VALUE BEFORE AVERAGE	...	...	...	...	...	...	...	£
<i>Add GROSS ANNUAL VALUE:</i>								
for previous year	...	...	...	...	...	...	...	£
for year preceding that	...	...	...	...	...	...	...	£
<hr/>								£
Divide by three to obtain GROSS ANNUAL VALUE	...	...	...	...	...	...	...	£
Deduct 20 per cent. under Rating (Scotland) Act, 1926	...	...	...	...	...	...	...	£
<hr/>								
NET ANNUAL AND RATEABLE VALUE	...	...	...	...	...	...	...	£
<hr/>								

4. It is an essential feature of the revenue principle as applied to public utility undertakings that it should be applied consistently. Only in very exceptional circumstances has the Court authorised any reduction in values arrived at by this method. This feature may be compared with the working of the contractor's method under which it is the recognised practice of assessors, accepted by the Court, to compare the valuations arrived at by its application with the values of similar subjects and, where they see fit, to make suitable adjustments.

5. If an undertaking is situated in more than one separately rated area the valuation for the whole undertaking must be divided among these areas. The value of the Scottish Gas Board's undertaking is distributed among all rating areas in Scotland in which there are gas installations, whether manufacturing works or mains, by allocating to each area a value which bears the same proportion to the total value of the undertaking as the structural cost of the works in that area bears to the structural cost of the whole undertaking.

APPENDIX II (see paragraph 6)

The Methods Recommended by the Sorn Committee in 1944 for Granting Relief from Rating to Hydro-electric Undertakings

The Cooper Report (Cmd. 6406).*

1. The Cooper Committee had pointed out in 1942 that in the valuation on the revenue principle of an undertaking generating electricity by steam power the very large sums expended annually on coal or other fuel were deducted from receipts, whereas a hydro-electric undertaking had no fuel costs to deduct and was prohibited from deducting any part of the annual charges on its civil engineering works, which are their counterpart. As a result, the annual value of a hydro-electric undertaking was, under the existing law, much higher than that of a steam undertaking with a comparable output. The Cooper Committee recorded the opinion that the case for equating steam and hydro-electric undertakings was unanswerable.

First Sorn Committee's Report (Cmd. 6526).†

2. The first Sorn Committee recommended that relief should be limited to generation works, these and not transmission or distribution lines being the part of a hydro-electric undertaking which gave rise to disproportionately high rating burdens.

3. The Committee suggested three alternative methods of relief:—

- (a) the deduction of an additional 25 per cent. from the gross annual value of the generation works of the undertaking in arriving at their net annual and rateable value,
- (b) the deduction from the undertaking's gross revenue, in calculating its gross annual value, of a sum equal to 3½ per cent. upon the capital expended on its generation works in excess of £30 per kilowatt installed, or
- (c) an adjustment of the valuation of the generation works in accordance with the proportion which £30 per kilowatt installed at the generating stations bore to the actual constructional cost per kilowatt installed.

4. The first method would give the same proportionate relief to all undertakings irrespectively of variations in the capital expenditure required for the same output as a result of different natural conditions. The second and third methods, on the other hand, had as their object the relief of a hydro-electric undertaking of its rating liability in respect of that proportion of the constructional works required for a generating scheme which cost more than a fixed capital expenditure per kilowatt of output capacity; both would give proportionately more relief to undertakings whose construction costs are unduly high for geographical reasons or because of increases in the cost of labour or materials.

Hydro-Electric Undertakings (Valuation for Rating) (Scotland) Act, 1945

5. The Act of 1945 gave effect to the third method and it operated until the Local Government Act, 1948, took electricity undertakings out of the valuation roll and provided for payments by electricity undertakings for the benefit of local authorities. The main provisions of the 1945 Act were:—

(a) where the constructional cost of *new* hydro-electric generating works exceeded £30 per kilowatt installed their rateable value was to be reduced in the proportion which £30 bore to the actual cost per kilowatt installed;

(b) the same relief was to apply to *existing* works but in full only when new rateable value equivalent to the amount of the concession had been created by the same or other hydro-electric undertakings in the same county or large burgh;

(c) the working of the relief was to be reviewed periodically and a report made to Parliament;

(d) the number of kilowatts installed at any station was to be conclusively determined by certificate of the Electricity Commissioners;

(e) undertakers other than the North of Scotland Hydro-Electric Board who benefited from the relief were to apply the net gain to the development of their system of distribution or for the benefit of their consumers in accordance with directions given by the Electricity Commissioners.

* H.M.S.O., Price 9d.

† H.M.S.O., Price 4d.

APPENDIX III (see paragraph 8)

Note on the 20 per cent. Deduction from Gross Annual Value

Before the passing of the Rating (Scotland) Act, 1926, underground gas and water pipes were, together with certain other properties in burghs, assessed for the purpose of various burgh rates on only one-fourth of their full annual value: see, for example, section 347 of the Burgh Police (Scotland) Act, 1892. It was apparently considered that these properties enjoyed less than the normal benefit from the services for which these rates were charged (Royal Commission on Local Taxation, 1896, Final Report for Scotland (Cmnd. 1067*), page 7). Under section 37 of the Poor Law (Scotland) Act, 1845, the poor rate was levied on the net annual value, that is, the gross annual value less a deduction for repairs and maintenance. In practice a deduction from the gross annual value of gas and water undertakings was made at a percentage fixed by the parish council, which over Scotland as a whole varied from 5 to 75 per cent. These two forms of deduction from gross annual value, together with other forms of differential rating, were replaced under the 1926 Act by the scale of deductions set out in the First Schedule to that Act, which was intended to produce over the country as a whole the minimum of disturbance in the incidence of rates as between different classes of property (Cmnd. 2639*). It can therefore be held that in the case of gasworks and waterworks the 20 per cent. deduction from gross annual value was only partly intended to secure rating on net annual value; in part it preserved the former partial exemption of underground pipes in burghs.

APPENDIX IV (see paragraph 19)

VALUATION OF THE SCOTTISH GAS BOARD

Summary Statement showing Estimated Net Annual and Rateable Values from 1955-56 to 1961-62 assuming various adjustments in the present Method of Valuation

£ thousand

Supporting Statements	Basis of Valuation	Valuation Year						
		1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62
1	Revenue principle as presently used	382 (actual)	576	866	1,210	1,425	1,638	1,824
2	Ditto, but allowing as a deduction sums placed to area reserve	382	576	866	1,151	1,334	1,513	1,721
3	Ditto, but allowing reserves and an allowance for unremunerative expenditure	376	542	786	1,024	1,148	1,294	1,448
4	Ditto, but allowing reserves and a deduction of 66½% in respect of post-war expenditure	273	378	513	629	664	695	738
5	Ditto, but allowing reserves, unremunerative expenditure and 66½% in respect of post-war expenditure ...	268	360	474	575	605	648	692
6	Ditto, but allowing reserves and renewals (i.e., arriving at net annual value direct) and deduction for trunk mains	285	278	344	519	589	666	791

* H.M.S.O., *Out of print*.

APPENDIX IV (continued)

(Statement 1)

Actual Valuations of the Scottish Gas Board for the year 1955-56 with Estimated Valuations for 1956-57 to 1961-62 on Revenue Principle as presently applied

£ thousand

	Actual	Estimated					
		1955-56	1956-57	1957-58	1958-59	1959-60	1960-61
Year of Assessment	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60
<i>Balance of Net Revenue Account—</i>							
Profit +	—	+142	+200	+200	+100	+100	+100
Loss —	—	—	—	—	—	—	—
<i>Add Expenditure disallowed—</i>							
Interest, etc.	839	985	1,121	1,236	1,322	1,382	1,425
Depreciation	970	1,098	1,242	1,393	1,524	1,654	1,784
Owners' Rates (42½%)	156	156	144	255	388	510	608
	1,758	2,381	2,707	3,084	3,334	3,646	3,917
<i>Deduct Tenant's allowances—</i>							
5% on half working charges	504	478	497	517	538	560	582
5% on tenant's plant for interest	505	495	507	518	528	536	542
5% on tenant's plant for depreciation	220	188	207	225	242	258	270
	1,229	1,161	1,211	1,260	1,308	1,354	1,394
Gross Annual Value	529	1,220	1,496	1,824	2,026	2,292	2,523
Gross Annual Value, previous year	410	529	1,220	1,496	1,824	2,026	2,292
Gross Annual Value, previous year but one	491	410	529	1,220	1,496	1,824	2,026
	1,430	2,159	3,245	4,540	5,346	6,142	6,841
Three years' average	477	720	1,082	1,513	1,782	2,047	2,280
Less 20% deduction under Rating (Scotland) Act, 1926	95	144	216	303	357	409	456
Net Annual and Rateable Value	382	576	866	1,210	1,425	1,638	1,824
Rates Paid (valuation year)	340	548	860	1,200	1,430	1,630	1,820
Assumed rate poundage	(18/-)	(19/-)	(20/-)	(20/-)	(20/-)	(20/-)	(20/-)

APPENDIX IV (continued)

(Statement 2)

Estimates of future Valuations of the Scottish Gas Board adjusted on the assumption that sums put to Area Reserve are allowed as a Deduction

£ thousand

Year of Assessment Year of Accounts	Actual 1955-56 1953-54	Estimated						
		1956-57 1954-55	1957-58 1955-56	1958-59 1956-57	1959-60 1957-58	1960-61 1958-59	1961-62 1959-60	
Balance on Net Revenue Account—								
Profit	...	—	—	+142	+200	+200 transferred to Reserve (exclude)	+100 transferred to Reserve (exclude)	+100 transferred to Reserve (exclude)
Loss	—	—	—	—	—	—	—	+100 transferred to Reserve (exclude)
<i>Add Expenditure disallowed—</i>								
Interest, etc.	...	839	985	1,121	1,236	1,322	1,382	1,425
Depreciation	...	970	1,098	1,242	1,393	1,524	1,654	1,784
Owners' Rates (42½%)	...	156	156	144	232	365	488	565
		1,758	2,381	2,707	2,861	3,211	3,524	3,774
<i>Deduct Tenant's allowances—</i>								
5% on half working charges	...	504	478	497	517	538	560	582
5% on tenant's plant for interest	...	505	495	507	518	528	536	542
5% on tenant's plant for depreciation	...	220	188	207	225	242	258	270
		1,229	1,161	1,211	1,260	1,308	1,354	1,394
Gross Annual Value	...	529	1,220	1,496	1,601	1,903	2,170	2,380
Gross Annual Value, previous year	...	410	529	1,220	1,496	1,601	1,903	2,170
Gross Annual Value, previous year but one	...	491	410	529	1,220	1,496	1,601	1,903
		1,430	2,159	3,245	4,317	5,000	5,674	6,453
Three years' average	...	477	720	1,082	1,439	1,667	1,891	2,151
Less 20% deduction under Rating (Scotland) Act, 1926	...	95	144	216	288	333	378	430
Net Annual and Rateable Value	...	382	576	866	1,151	1,334	1,513	1,721
Rates	...	340	548	860	1,150	1,330	1,500	1,700
Assumed rate poundage	...	(18/-)	(19/-)	(20/-)	(20/-)	(20/-)	(20/-)	(20/-)

APPENDIX IV (continued)

Statement 3

Estimates of future Valuations of the Scottish Gas Board adjusted on the assumption that Reserves are allowed as a Deduction and the Gross Value is reduced by an Allowance for Unremunerative Expenditure

								£ thousand
Year of Assessment	... ... ...	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62
Year of Accounts	... ... ...	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60
Balance on Net Revenue Account—								
Profit +	... ... ...	—	+142	+200	+200 transferred to Reserve (exclude)	+100 transferred to Reserve (exclude)	+100 transferred to Reserve (exclude)	+100 transferred to Reserve (exclude)
Loss —	... ... ...	-207	—	—	—	—	—	—
Add Expenditure disallowed—								
Interest, etc.	... ... ...	839	985	1,121	1,236	1,322	1,382	1,425
Depreciation	... ... ...	970	1,098	1,242	1,393	1,524	1,654	1,784
Owners' Rates (42½%)	... ... ...	156	156	140	221	331	438	489
		1,758	2,381	2,703	2,850	3,177	3,474	3,698
Deduct Tenant's allowances—								
5% on half working charges	... ... ...	504	478	497	517	538	560	582
5% on tenant's plant for interest	... ... ...	505	495	507	518	528	536	542
5% on tenant's plant for depreciation	... ... ...	220	188	207	225	242	258	270
		1,229	1,161	1,211	1,260	1,308	1,354	1,394
Gross Annual Value	... ... ...	529	1,220	1,492	1,590	1,869	2,120	2,304
Gross Annual Value, previous year	... ... ...	410	529	1,220	1,492	1,590	1,869	2,120
Gross Annual Value, previous year but one	... ... ...	491	410	529	1,220	1,492	1,590	1,869
		1,430	2,159	3,241	4,302	4,951	5,579	6,293
Three years' average	... ... ...	477	720	1,080	1,434	1,650	1,860	2,098
Deduct allowance for unremunerative expenditure—								
Per cent.	... ... ...	1.5	6	9	10.75	13	13.75	
Amount	... ... ...	7	43	97	154	215	242	288
		470	677	983	1,280	1,435	1,618	1,810
<i>Less 20% deduction under Rating (Scotland) Act, 1926</i>	... ...	94	135	197	256	287	324	362
Net Annual and Rateable Value	... ...	376	542	786	1,024	1,148	1,294	1,448
Rates	... ... ...	330	515	786	1,024	1,148	1,294	1,448
Assumed rate poundage	... ... ...	(18/-)	(19/-)	(20/-)	(20/-)	(20/-)	(20/-)	(20/-)

APPENDIX IV (continued)

(Statement 4)

Estimates of future Valuations of the Scottish Gas Board adjusted by allowing sums put to Reserve as a Deduction, and allowing a Deduction of 66½ per cent. in respect of Post-war Expenditure

								£ thousand
Year of Assessment	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62	
Year of Accounts	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60	
Balance on Net Revenue Account—								
Profit—	—	+142	-200	+200 transferred to Reserve (exclude)	+100 transferred to Reserve (exclude)	+100 transferred to Reserve (exclude)	+100 transferred to Reserve (exclude)	
Loss—	-207	—	—	—	—	—	—	
Add Expenditure disallowed—								
Interest, etc. ...	839	985	1,121	1,236	1,322	1,382	1,425	
Depreciation ...	970	1,098	1,242	1,393	1,524	1,654	1,784	
Owners' Rates (42½%) ...	156	156	105	153	212	263	280	
	1,758	2,381	2,668	2,782	3,058	3,299	3,489	
Deduct Tenant's allowances—								
5% on half working charges ...	504	478	497	517	538	560	582	
5% on tenant's plant for interest ...	505	495	507	518	528	536	542	
5% on tenant's plant for depreciation ...	220	188	207	225	242	258	270	
	1,229	1,161	1,211	1,260	1,308	1,354	1,394	
Gross Annual Value ...	529	1,220	1,457	1,522	1,750	1,945	2,095	
Gross Annual Value, previous year ...	410	529	1,220	1,457	1,522	1,750	1,945	
Gross Annual Value, previous year but one ...	491	410	529	1,220	1,457	1,522	1,750	
	1,430	2,159	3,206	4,199	4,729	5,217	5,790	
Three years' average ...	477	720	1,069	1,400	1,576	1,739	1,930	
<i>Less 20% deduction under Rating (Scotland) Act, 1926</i> ...	95	144	214	280	315	348	386	
Net Annual and Rateable Value ...	382	576	855	1,120	1,261	1,391	1,544	
Adjusted Net Annual and Rateable Value (see statement overleaf) ...	273	378	513	629	664	695	738	
Rates ...	246	359	500	620	660	690	730	
Assumed rate poundage ...	(18/-)	(19/-)	(20/-)	(20/-)	(20/-)	(20/-)	(20/-)	

APPENDIX IV (continued)

(Statement 4—continued)

Adjustment of Annual Value in respect of Post-war Expenditure

£ thousand

Year of Assessment	Year of Accounts	Capital			Gross Annual Value		Col. (1) \times Col. (5)	Col. (6) less 20%	Col. (2) \times Col. (5)	Col. (8) less 20%	Deduct 66 2/3% from Col. (9)	Col. (7) + Col. (10) Net Annual Value						
		Pre-Vesting	Post-Vesting	Total	Amount	Percentage of Total Capital Col. (3) (5)												
		(1)	(2)	(3)	(4)													
1955-56	1953-54	14,400	10,685	25,085	477	1.90	274	219	203	162	54	273						
1956-57	1954-55	13,500	14,535	28,035	720	2.57	347	278	375	300	100	378						
1957-58	1955-56	12,600	18,585	31,185	1,065	3.41	430	344	635	508	169	513						
1958-59	1956-57	11,700	22,515	34,215	1,400	4.10	480	384	920	736	245	629						
1959-60	1957-58	10,800	26,465	37,265	1,576	4.23	457	366	1,119	895	298	664						
1960-61	1958-59	9,900	29,705	39,605	1,739	4.40	434	347	1,305	1,044	348	695						
1961-62	1959-60	9,000	32,409	41,409	1,930	4.66	419	335	1,511	1,209	403	738						

APPENDIX IV (continued)

(Statement 5)

Adjustment of Annual Value (after Deduction for Reserves) in respect of both Post-war and Unremunerative Expenditure

£ thousand

Year of Assessment	Year of Accounts	Capital			Gross Annual Value		Col. (1) \times Col. (5)	Col. (6) less 20%	Col. (2) \times Col. (5)	Col. (8) less 20%	Deduct 66 2/3% from Col. (9)	Col. (7) + Col. (10) Net Annual Value						
		Pre-Vesting	Post-Vesting	Total	Amount	Percentage of Total Capital Col. (3) (5)												
		(1)	(2)	(3)	(4)													
1955-56	1953-54	14,400	10,685	25,085	470	1.87	269	215	200	160	53	268						
1956-57	1954-55	13,500	14,535	28,035	687	2.45	331	265	356	285	95	360						
1957-58	1955-56	12,600	18,585	31,185	983	3.15	397	318	585	468	156	474						
1958-59	1956-57	11,700	22,515	34,215	1,280	3.74	438	350	842	674	225	575						
1959-60	1957-58	10,800	26,465	37,265	1,435	3.85	416	333	1,019	815	272	605						
1960-61	1958-59	9,900	29,705	39,605	1,618	4.09	405	324	1,215	972	324	648						
1961-62	1959-60	9,000	32,409	41,409	1,810	4.37	393	314	1,416	1,133	378	692						

APPENDIX IV (continued)

(Statement 6)

Estimates of future Valuations of the Scottish Gas Board adjusted by the allowance of sums placed to Reserve, of Renewals (i.e. Depreciation, with Interest on the Depreciation Fund added back) and of a Deduction for Trunk Mains

(In this table the Net Annual Value is arrived at direct.)

£ thousand

Year of Assessment	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62
Year of Accounts	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60
Balance on Net Revenue Account—							
Profit +	—	+142	+200	+200 transferred to Reserve (exclude)	+100 transferred to Reserve (exclude)	+100 transferred to Reserve (exclude)	+100 transferred to Reserve (exclude)
Loss —	—207	—	—	—	—	—	—
Add Expenditure disallowed—							
Interest, etc., charged on accounts ...	839	985	1,121	1,236	1,322	1,382	1,425
Interest on Depreciation Fund ...	130	160	190	240	290	350	400
Depreciation ...	970	1,098	1,242	1,393	1,524	1,654	1,784
Owners' Rates (42½ %) ...	156	156	108	112	146	221	250
	1,888	2,541	2,861	2,981	3,282	3,607	3,859
Deduct Tenant's allowances—							
5% on half working charges ...	504	478	497	517	538	560	582
5% on tenant's plant for interest ...	505	495	507	518	528	536	542
Depreciation ...	970	1,098	1,242	1,393	1,524	1,654	1,784
	1,979	2,071	2,246	2,428	2,590	2,750	2,908
Net Annual Value							
Net Annual Value, previous year ...	Nil	470	615	553	692	857	951
Net Annual value, previous year but one ...	410	Nil	470	615	553	692	857
	491	410	Nil	470	615	553	692
	901	880	1,085	1,638	1,860	2,102	2,500
Three years' average							
Less 5% (estimated) deduction for trunk mains ...	300	293	362	546	620	701	833
	15	15	18	27	31	35	42
Rateable Value ...	285	278	344	519	589	666	791
Rates ...	256	264	344	519	589	666	791
Assumed rate poundage ...	(18/-)	(19/-)	(20/-)	(20/-)	(20/-)	(20/-)	(20/-)

APPENDIX V
(see paragraph 27)

**Valuation of Gas Undertakings in Scotland
1918-1962**

(a) Total Gross Annual Value of the Gas Undertakings valued by the Assessor of Public Undertakings (Scotland) for the valuation years 1918-1919 to 1948-1949.

Year	Gross Annual Value		Year	Gross Annual Value	
	£			£	
1918-1919	...	280,680	1934-1935	...	453,730
1919-1920	...	276,564	1935-1936	...	430,787
1920-1921	...	332,133	1936-1937	...	411,515
1921-1922	...	284,125	1937-1938	...	399,642
1922-1923	...	308,461	1938-1939	...	338,602
1923-1924	...	288,767	1939-1940	...	264,706
1924-1925	...	322,506	1940-1941	...	181,098
1925-1926	...	401,460	1941-1942	...	150,300
1926-1927	...	455,607	1942-1943	...	172,901
1927-1928	...	464,953	1943-1944	...	208,326
1928-1929	...	349,553	1944-1945	...	203,608
1929-1930	...	436,712	1945-1946	...	165,228
1930-1931	...	439,902	1946-1947	...	210,592
1931-1932	...	474,057	1947-1948	...	175,584
1932-1933	...	496,120	1948-1949	...	159,515
1933-1934	...	517,576			

(b) Gross Annual Value of the Scottish Gas Board for the valuation years 1949-1950 to 1961-1962.

Year	Actual		Year	Estimated	
	Gross Annual Value	£		Gross Annual Value	£
1949-1950	...	572,249	1956-1957	...	720,000
1950-1951	...	536,338	1957-1958	...	1,082,000
1951-1952	...	457,563	1958-1959	...	1,513,000
1952-1953	...	483,816	1959-1960	...	1,782,000
1953-1954	...	473,535	1960-1961	...	2,047,000
1954-1955	...	517,591	1961-1962	...	2,280,000
1955-1956	...	476,747			

NOTES

1. The undertakings valued by the Assessor of Public Undertakings were those at Airdrie, Alloa, Cowdenbeath, Edinburgh, Glasgow, Gourock, Johnstone, Stirling and Stranraer. The following undertakings were locally assessed up to and including the years indicated: Cowdenbeath (1924-1925), Edinburgh (1925-1926), Johnstone (1920-1921) and Stranraer (1924-1925); for the years stated and earlier years the figures include the local assessors' valuations.

2. The gross annual value of the Scottish Gas Board's undertaking in 1949-1950 was arrived at by taking the aggregate of *all* the individual undertakings in Scotland in the last pre-vesting year, viz., £572,249.

APPENDIX VI (see paragraph 31)

Description of the English Scheme for the Valuation of Gasworks as proposed to be amended for Scotland

I. The English Scheme

1. The following system, which has been enacted in the Rating and Valuation (Miscellaneous Provisions) Act, 1955, was put forward owing to the practical difficulties experienced in applying the existing methods of valuation of gas undertakings in England and Wales since the industry was nationalised on the 1st May, 1949. There is some analogy between the gas and electricity industries, and the main feature of the arrangements for the electricity industry embodied in the Local Government Act, 1948, namely, the adoption of a basic figure which is varied annually in accordance with output, has been applied to the valuation of Gas Boards. The arrangement, however, arrives at a rateable value on which rates are levied and not, as in the case of electricity, at the amount of the final payment made by the Electricity Board as a contribution to local revenues.

2. Briefly, the scheme is as follows :—

(a) The total rateable value of hereditaments occupied for the manufacture and sale of gas (including showrooms and offices, but not houses) in each Gas Board area at 1st May, 1949, is used as the basic figure in the calculation of rateable value for 1952-53 and subsequent years (subject to paragraph 6 below).

(b) For each such year the basic rateable value is to be adjusted according to the increase or decrease in the number of therms sold in the Gas Board area in the last year but one as compared with the year 1948-49. This increase or decrease is to be divided by five and the result expressed as a fraction of the number of therms sold in 1948-49; the rateable value of the hereditaments in the whole Gas Board area for the year in question is to be the basic rateable value increased or decreased by that fraction.

3. The total rateable value of each undertaking thus calculated has to be apportioned between the rating areas which it serves. In arriving at the basis of apportionment, the following facts were taken into account :—

(a) Over England and Wales as a whole the hereditaments for the manufacture of gas appear to be approximately equal in value to the mains for the distribution and sale of gas to consumers together with ancillary premises.

(b) The proportion of the gross output of a gas manufacturing works which is actually available for distribution (referred to as "useful therms") appears to be roughly 90 per cent.

4. The rateable values of gas hereditaments in each rating area are determined as follows :—

(a) a factor of rateable value per therm for the whole of each Gas Board area is worked out as follows :

Twice Gas Board's Rateable Value (as determined under paragraph 2 (b))

Therms Sold + Useful Therms Manufactured.

(b) the rateable value of the undertaking in each rating area is then the sum of—

(i) value of mains (if any)=half of therms sold in area \times factor; and

(ii) value of gas manufacture works (if any)=half of useful therms manufactured in area \times factor.

The year in question for both (a) and (b) would be the last but one before that in which the rate is to be levied.

5. The rateable value of the gas hereditaments in each rating area having been so determined, the Gas Board's liability to rates is to be arrived at by applying the normal rate poundage in the area to that value.

6. Provision is included for the Minister of Housing and Local Government to adjust the

basic valuation of any Gas Board. It is understood that this provision may be used among other things to apply a ceiling to basic figures which might otherwise appear excessive.

7. The new system applies retrospectively from the 1st April, 1952. In the three years following the 31st March, 1949, the actual rate payments are to be repeated unchanged.

8. Houses owned by the Gas Board continue to be assessed as if privately owned.

II. Amendments Proposed for the Application of the Foregoing Scheme to Scotland

9. The basic rateable value of the Scottish Gas Board would not be the rateable value for the year 1948-49; instead the Board's existing valuation might be frozen in common with all other valuations for an interim period during which revaluation is in progress on the new principles recommended by the Sorn Committee.

10. At the end of the interim period a fresh basic valuation would require to be introduced. This might be done either by applying a formula based on the effect of revaluation generally to the frozen valuation, or by adopting as the base the valuation that would be brought out at the material time by modifying the revenue principle in one of the ways suggested in this report, subject to deduction for owners' rates.

11. During the interim period the allocation of the *cumulo* value to separately rated areas (which is now calculated according to structural costs) should be frozen together with the *cumulo*, subject only to variation in the same proportion as the *cumulo* is varied.

12. If possible a factor should be included to secure automatic adjustments in the basic valuation at five-yearly intervals or otherwise as circumstances might require; failing this, provision should be made for periodical review of the basic valuation. The provision for Ministerial adjustment referred to in paragraph 6 would not appear appropriate in the circumstances envisaged.